

**United States Environmental Protection Agency
Criminal Investigation Division
Investigative Activity Report**

Case Number

0506-0026

Case Title:

Ferguson Enterprises Inc.

Reporting Office:

Detroit, MI, Resident Office

Subject of Report:

Interview of (b)(6), (b)(7)(C) Chief Procurement Officer, City of Detroit

Activity Date:

February 3, 2012

Reporting Official and Date:

(b)(6), (b)(7)(C), ASAC

09-FEB-2012, Signed by: (b)(6), (b)(6), ASAC

Approving Official and Date:

(b)(6), (b)(7)(C) SAC

13-FEB-2012, Approved by: (b)(6), (b)(6), SAC

SYNOPSIS

On February 3, 2012, U.S. EPA CID Special Agent (b)(6), (b)(7)(C) interviewed (b)(6), (b)(7)(C) Chief Procurement Officer, City of Detroit, regarding (b)(6) review of certain Detroit Water & Sewerage Department (DWSD) contracts.

DETAILS

On February 3, 2012, U.S. EPA CID Special Agent (b)(6), (b)(7)(C) interviewed (b)(6), (b)(7)(C) Chief Procurement Officer, City of Detroit, regarding (b)(6) review of certain Detroit Water & Sewerage Department (DWSD) contracts. Also present during the interview was City of Detroit Police Department Police Officer (b)(6), (b)(7)(C). After being informed of the identity of the interviewing agent (b)(6), provided the following information:

(b)(6), was hired by Detroit Mayor (b)(6), (b)(6) in January of 2010. (b)(6), was previously employed by General Motors and has a background in contracting and quality analysis. In (b)(6) current role (b)(6), is charged with reviewing existing contracts and negotiating significant cost savings for the city. During this review (b)(6), came across a number of contracts which were not competitively bid and well as some that when re-bid, were awarded for millions of dollars less than the preceding contract, despite the fact that the goods and or services being provided had not changed. One example of this was a DWSD contract for the purchase of chlorine. This contract had previously been awarded for \$7 million and the new contract was awarded at \$4 million despite the fact that the new contract required the same amount and quality of chlorine. (b)(6), finds this suspicious and opined that perhaps something was amiss in the awarding of the first contract.

Another contract which bothered (b)(6), was for the hauling of sludge from the DWSD waste water treatment plant. A new contract for hauling was awarded to Bankston Trucking for \$2 million less than the previous contractor. (b)(6), had to take the awarding of this contract up to the DWSD Deputy Director level as (b)(6) was incurring resistance from the DWSD staff. The Deputy Director, (b)(6), (b)(7) was also resistant and concerned about the change in hauling contractor. (b)(6), asked (b)(6), why it was that (b)(6) was resisting the change when it meant a \$2 million savings for the city. (b)(6), had no answer to (b)(6), (b)(6) question.

According to (b)(6), 63% of the City of Detroit budget is spent by the DWSD. This includes all general fund and DWSD monies.

(b)(6), showed SA (b)(6), (b)(7) a spreadsheet which (b)(6) had compiled of the top vendors for the City of Detroit. SA (b)(6), (b)(7) noted that SkyGroup Grand was on the list. (b)(6), explained that (b)(6) flagged that contract for re-negotiation as it was a 20 year lease for the DPD which was unusual

**United States Environmental Protection Agency
Criminal Investigation Division
Investigative Activity Report**

Case Number

0506-0026

given the long term of the contract. SA (b)(6), (b) (7) also noted that FutureNet was on the list. (b)(6), explained that FutureNet was an IT staffing company. (b)(6), agreed to provide the file for the FutureNet contract to SA (b)(6), (b) (7)

SA (b)(6), (b) (7) asked (b)(6), what (b) response would be if someone from the Mayor's Administration asked (b) to check on a bid or the status of a contract approval. (b)(6), explained that (b) would ask the staff person why they were asking for information on a contract as the process is supposed to be open and transparent. (b)(6), would also ask what the staff person was trying to alter or how they were trying to influence a change in the awarding of the contract. SA (b)(6), (b) (7) then asked what if the staff person asked (b)(6), to hold the contract, thus not releasing it for approval. (b)(6), replied that (b) would again ask that staff person why.

The DWSD Contracts and Grants group is in essence a purchasing group. The Contracts and Grants group sends all contracts to the Purchasing Department so that clearances for income tax and other required documentation can be run. Bids for the DWSD contracts are given to the Purchasing Department for opening.

(b)(6), then showed SA (b)(6), (b) (7) an email which was displayed on (b) computer screen from one of (b) employees. In this email the employee is questioning the 20 year lease held between the DPD and SkyGroup Grand. The employee then notes that one of the principals of SkyGroup is (b) whose (b), (b)(6), (b) (7)(C) works for the city. The email describes how (b)(6), (b) (7)(C) was making \$32,000 in salary in 2002 but by 2007 was earning \$85,000 which equates to a 163% increase in pay.

(b)(6), asked (b) employee (b)(6), (b) (7)(C) to join the interview. (b)(6), explained that there were two chemical contracts with the DWSD which (b) reviewed, one for the purchase of chlorine then other for the purchase of flocculants. Both of these contracts were re-bid for significant cost savings despite the fact that there was no material or quantity change. (b)(6), offered to email the contract files to SA (b)(6), (b) (7) On February 6, 2012, SA (b)(6), (b) (7) received these contracts via email from (b)(6), (see attached). On February 9, 2012, SA (b)(6), (b) (7) received a copy of the FutureNet IT contract via email. (See Attached)

ATTACHMENT

DWSD Chemical Purchase Contracts

FutureNet IT Contract